

Economics 202
EXAM 1

Name: _____

1. If desired expenditures equal \$2000 at the income level produced, which is \$2200, then it can be expected that
- A) inventories will decrease by \$200.
B) actual investment will exceed planned or desired investment.
C) there will be excess demand for most goods.
D) this economy will have a trade surplus.
2. Equilibrium national income can be calculated as
- A) autonomous spending multiplied by the marginal propensity to consume.
B) autonomous spending minus induced expenditure.
C) autonomous spending multiplied by the spending multiplier.
D) the sum of induced expenditure plus autonomous expenditure multiplied by the marginal propensity to consume.
3. National income is most likely to increase following
- A) unplanned inventory accumulation.
B) a decrease in the marginal propensity to save.
C) a decrease in autonomous consumption.
D) a planned reduction in inventories.
4. If the CPI at the end of 1989 was 300 and at the end of 1990 the CPI was 320, the annual rate of inflation was approximately
- A) 20 percent. B) -15 percent. C) 6.7 percent. D) 11.5 percent.
5. Total expenditure on a bundle of goods in 1986 was \$500. In 1987, the same goods cost \$550, and in 1988 this bundle of goods cost \$650. If 1987 is the base year, the index number for 1987 is
- A) 50. B) 100. C) 110. D) 150.
6. The rate of inflation is 3 percent in West Germany, and 5 percent in the United States. Identical baskets of goods cost the same in both countries. Given this information, we can reasonably conclude that
- A) consumers are necessarily worse off in the United States.
B) consumers are necessarily worse off in West Germany.
C) we need to know the rate of change in money wages before we can calculate relative changes in well-being.
D) price levels are now higher in West Germany than in the United States.
7. Which of the following statements about inventories and GDP is true?
- A) Any decrease in the value of inventories will be added to investment.
B) Gross investment minus the change in inventories yields net investment.
C) In calculating personal income the change in inventories should be excluded since it will equal the savings of consumers.
D) Inventory change is included in investment on the output side of the GDP calculation.

$Y = 12700$

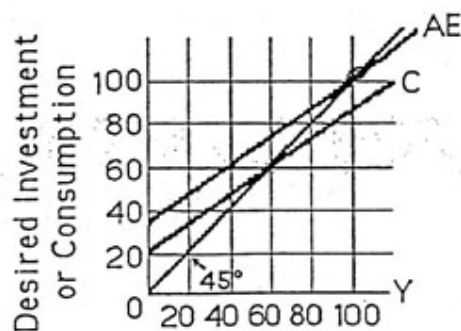
$E = 1$

$AE < Y$
 $2000 < 12700$

$AE = 2000 + I$
 $I = 10700$

Figure 23.3

The figure applies to an economy without a government or of a foreign trade sector, whose consumption function is given below. Figures are in billions of dollars. Investment equals 10 at each level of income (Y). The full-employment level of income (Y_{FE}) is 100.



$AE = C + I = 10$
 $C = 100 - Y$
 $AE = 100 - Y + 10 = 110 - Y$

8. According to Figure 23.3, the marginal propensity to spend out of Y is
 A) 10.
 B) 0 when Y equals 30.
 C) 1/3.
 D) 2/3.
9. According to Figure 23.3, savings
 A) equal 0 when Y equals 80.
 B) increase directly with Y.
 C) are always less than injections.
 D) are positive at all levels of Y.
10. According to Figure 23.3, the average propensity to consume
 A) increases as income increases.
 B) decreases as income increases.
 C) does not vary with a change in income.
 D) equals 0 when Y equals 60.

Linear Consumption Schedule:

Y (billions)	Desired Consumption (billions)
\$400	\$450
600	600
800	750
1000	900
1200	1050

$S = Y - C$
 $S = Y - (100 - Y) = 2Y - 100$
 $C = 100 - 0.75Y$

$DI = C + S$
 $C + S = DI$
 $S = DI - C$

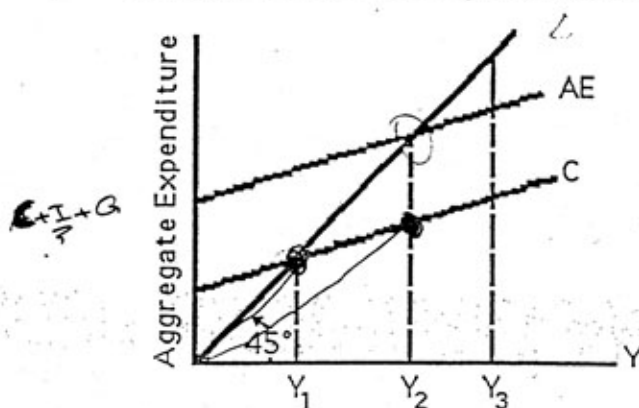
11. Based upon the above data, if Y is \$400, saving equals
 A) -\$50.
 B) \$0.
 C) \$50.
 D) \$100.
12. Based on the above data, we might predict that if Y were zero, then
 A) desired consumption would be zero.
 B) consumption would be autonomous consumption of \$150 billion.
 C) consumption would be induced consumption of \$150 billion.
 D) consumption would be -\$150 billion.
13. Based upon the above data, we would predict that saving would be \$125 billion if Y equaled
 A) \$1000 billion.
 B) \$1100 billion.
 C) \$1200 billion.
 D) \$1300 billion.
14. Based upon the above data, if Y were \$900 billion, the APS would be close to
 A) 0.005.
 B) 0.083.
 C) 0.111.
 D) 0.25.

1000×0.125

Figure 23.1

This figure represents a closed economy. Lines C and AE are parallel.

P.3



15. According to Figure 23.1, when income is less than Y_1
- income must be greater than consumption.
 - income must be less than saving.
 - household saving must be negative.
 - the MPC is less than zero at Y_1 .
16. According to Figure 23.1, at Y_2 , the average propensity to consume
- is greater than at Y_1 .
 - is less than at Y_1 .
 - equals one.
 - must be zero.
17. According to Figure 23.1, the vertical distance between C and AE at Y_2 does NOT represent
- investment.
 - saving at Y_2 .
 - the equilibrium level of saving.
 - the same level of saving as at Y_3 .
18. If businesses are producing \$200 billion worth of goods and services, and households are consuming \$160 billion worth of goods and services, and businesses want to invest \$20 billion during a particular year, then
- desired investment does not equal actual investment.
 - unwanted inventories are accumulating by \$20 billion.
 - households are saving \$40 billion.
 - All of the above are true.
19. Undesired inventory accumulation occurs when
- autonomous expenditure exceeds induced expenditure.
 - induced expenditure exceeds autonomous expenditure.
 - actual expenditure exceeds desired expenditure.
 - desired expenditure exceeds actual expenditure.
20. A point on the consumption expenditure curve lying below the 45-degree line represents a(n)
- marginal propensity to consume that equals 1.
 - marginal propensity to consume that is greater than 1.
 - average propensity to consume that is greater than 1.
 - average propensity to consume that is less than 1.
21. The marginal propensity to consume (MPC) is .8, and we know that the average propensity to consume is greater than the MPC. From this information, we can deduce that the average propensity to save is
- equal to 0.20.
 - greater than the marginal propensity to save.
 - equal to the marginal propensity to save.
 - less than the marginal propensity to save.

22. If the inflation rate is negative, the _____ is falling and there is _____.

- A) unemployment rate; inflation
- B) price level; inflation
- ☒ C) price level; deflation
- D) unemployment rate; deflation

23. Let C represent consumption expenditure, S saving, I gross private domestic investment, G government purchases of goods and services, and NX net exports of goods and services. Then GDP equals

- A) $C + S + G + NX$.
- B) $C + S + G - NX$.
- ☒ C) $C + I + G + NX$.
- D) $C + I + G - NX$.

24. An example of "investment" in the national income accounts is the purchase of

- ☒ A) a new van by a potter, who packs it with his wares and travels to art shows.
- B) 100 shares of Canadian stock on the New York Stock Exchange.
- C) a 100-year-old house that was just put on the protected historic sites list in the year in question.
- D) a U.S. government bond.

25. Consumption function: $C = 600 + 0.8Y$
Aggregate expenditure function: $AE = 1000 + 0.5Y$

Based on the above two equations above, autonomous aggregate expenditure is

- A) 0.8.
- B) 600.
- ☒ C) 1,000.
- D) 0.5.

26. Based on the above two equations above, the marginal propensity to consume is

- ☒ A) 0.8.
- B) 600.
- C) 1,000.
- D) 0.5.

27. Based on the above two equations above, the slope of the aggregate expenditure curve is

- A) 0.8.
- B) 600.
- C) 1,000.
- ☒ D) 0.5.

28. Based on the above two equations above, equilibrium expenditure is

- A) 1,000.
- B) 1,600.
- ☒ C) 2,000.
- D) 3,000.

29. The total amount spent on adding to the stock of capital and on replacing depreciated capital is

- A) capital consumption.
- ☒ B) gross investment.
- C) depreciation.
- D) the net stock of investment.

30. In the circular flow model of an economy with no government sector and no international trade, households

- A) receive income from buyers of goods and services.
- B) receive income from the sale of resources in the goods markets.
- ☒ C) pay firms for the use of their resources.
- D) receive income from producers for the use of resources in the resource markets.

31. Which of the following are equal to one another?

- I. aggregate production
- II. aggregate expenditure
- III. aggregate income

- A) I equals II, but not III.
- ☒ B) I equals III, but not II.
- C) II equals III, but not I.
- D) I equals II equals III.

32. At the beginning of the year, Tom's Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's gross investment for the year totaled:

- A) 1 machine.
- B) 2 machines.
- ☒ C) 3 machines.
- D) 6 machines.

33. All of the following household expenditures are included in consumption expenditure EXCEPT

- A) payment to a dentist for filling a tooth.
- ☒ B) purchase of corporate stock.
- C) purchase of a new purse.
- D) purchase of hair styling.

34. In the national income accounts, the purchase of a new house counts as

- A) consumption expenditure.
- ☒ B) investment.
- C) a transfer.
- D) an addition to inventory.

35. Unemployment as measured includes the total number of people who

- A) have jobs or are currently looking for jobs.
- ☒ B) are available and looking for work but unable to find employment.
- C) would like to have a job but have stopped seeking work.
- D) would like to have a full-time job but are working part-time.

Year	Nominal GDP (billions of dollars)	Real GDP (billions of dollars)	GDP deflator
1998	2500	2381	105
1999	2400	2400	117

36. Using the data in the above table, what is real GDP in 1998?

- A) \$2137 billion.
- B) \$2520 billion.
- ☒ C) \$2381 billion.
- D) \$2051 billion.

37. Using the data in the above table, what is nominal GDP in 1999?

- A) \$2400 billion.
- B) \$2381 billion.
- ☒ C) \$2808 billion.
- D) \$2520 billion.

38. Using the data in the above table, what is the inflation rate between 1998 and 1999?

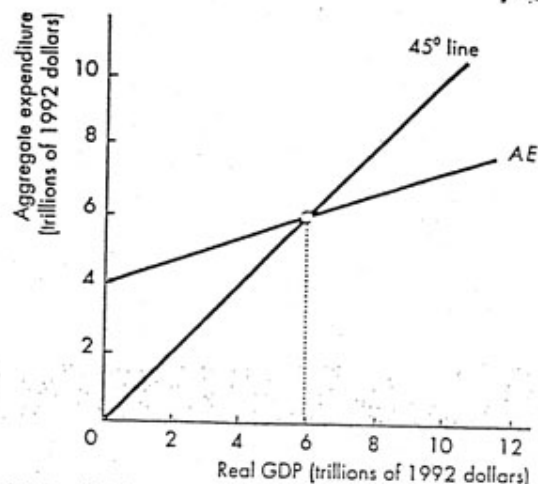
- A) 10.25 percent.
- ☒ B) 11.4 percent.
- ☒ C) 7.9 percent.
- D) 12.3 percent.

39. Which of the following people would be counted as unemployed in the Current Population Survey?

- A) Rich, who is working 20 hours a week but wants a full-time job.
- B) Misty, who just quit her job to return full-time to school.
- ☒ C) April, who just graduated from college and is looking for work.
- D) Jason, who was laid off from work less than 6 months ago but who has stopped looking for work.

40. Which of the following people is NOT considered unemployed in the Current Population Survey?

- A) The person has just finished school and has entered the labor force to look for work.
- B) The person has been laid off and is looking for a new job.
- C) The person is looking for work after not doing so for a time.
- ☒ D) The person is discouraged about finding a job and so does not search for work.



41. In the above figure, equilibrium expenditure is

- A) less than \$6 trillion.
- ☒ B) \$6 trillion.
- C) more than \$6 trillion.
- D) some amount that cannot be determined without more information.

42. In the above figure, if the level of real GDP is \$8 trillion,

- ☒ A) inventories are above the levels planned by firms.
- ☒ B) inventories are below the levels planned by firms.
- C) inventories equal the levels planned by firms.
- D) planned expenditures are zero.

43. In the above figure, if the level of real GDP is \$4 trillion,

- ☒ A) inventories are above the levels planned by firms.
- ☒ B) inventories are below the levels planned by firms.
- C) inventories equal the levels planned by firms.
- D) planned expenditures are zero.

44. The unemployment rate

- ☒ A) rises during recessions and falls during expansions.
- B) rises during recessions and rises during expansions.
- ☒ C) falls during recessions and rises during expansions.
- D) falls during recessions and falls during expansions.

45. Which of the following is NOT included in real GDP?

- A) Production of services, such as the services of hair dressers.
- B) Production of goods that last less than a year, such as production of hot dogs.
- ☒ C) Production that takes place in the underground economy.
- D) Production of goods that last more than a year, such as a pair of roller blades.

46. Which of the following is NOT included in real GDP?

- A) Production of services, such as the services of doctors.
- B) Production of goods that last more than one year, such as television sets.
- C) Production of goods that do not last more than one year, such as gasoline.
- ☒ D) Production in the home.

47. An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that

- A) inflation is probably rampant in this economy.
- ☒ B) a recession is occurring in this economy.
- C) an expansionary phase of the business cycle is in process.
- D) a peak in the business cycle will soon be reached.

48. If real GDP increases by 7 percent and population increases by 8 percent,

- A) inflation per person decreases
- B) inflation per person rises.
- C) real GDP per person increases.
- ☒ D) real GDP per person decreases.

49. Which of the following is TRUE regarding the unemployment rate?

- I. The unemployment rate tells the percentage of the nation's population that is unemployed.
- II. The unemployment rate measures unemployed labor hours.

- A) I only.
- B) II only.
- C) Both I and II.
- ☒ D) Neither I nor II.

50. During a recession, ____ jobs are destroyed than created and during an expansion ____ jobs are created than destroyed.

- ☒ A) more; more
- B) fewer; fewer
- C) more; fewer
- D) fewer; more